

Fiscal Note

Fiscal Services Division



SF 504 – Mental Health Property Tax Levy (LSB2312SV)

Analyst: Jess Benson (Phone: (515)281-4611) (jess.benson@legis.iowa.gov)

Fiscal Note Version – New

Description

Senate File 504 revises the county mental health and disability services property tax levy by equalizing the taxes that can be levied in each county on a regional basis and setting a maximum per capita amount that can be levied across the entire region. The new regional per capita cap is set by adding the sum of the maximum amount each county in the region would be able to levy for FY 2018 under current law and dividing that by the region's general population. Counties then multiply the new regional cap by their population to get the new county cap. Beginning in FY 2019 through FY 2022, the Bill sets an inflation factor for the regional caps of 1.0% for the first two years and 2.0% for the final two years. The regional caps and the inflation factor are limited statewide to \$47.28 per capita.

In addition to the changes to the levy, the Bill also requires counties to spend down fund balances in excess of 25.0%, but limits the replacement of property taxes with fund balances so not more than 33.0% of the levies are replaced annually.

The Bill allows the Polk County Board of Supervisors to transfer funds from the Broadlawns Medical Center levy to supplement the mental health budget, but the total transfer and Polk County mental health levy cannot exceed the statewide cap of \$47.28 per capita.

The Bill requests the Legislative Council to authorize a Study Committee to analyze the viability of the levy caps and the inflation factor in this Bill. The Study Committee is to meet during the 2020 Legislative Interim and submit a report to the General Assembly by January 15, 2021.

Background

In 1995, the General Assembly enacted **SF 69** (Property and Income Tax Act) that changed the way the county mental health and disability services system was funded and how the county mental health property tax was levied. Unlike other property tax levies that are calculated based on a dollar rate per \$1,000 of property valuation, the county mental health and disability services levy was capped at a dollar amount. Counties were then allowed to choose to lock in their FY 1994 actual expenditures or their FY 1996 net expenditures as their new levy dollar cap. After FY 1996, with no option to increase the county levy and no growth in the rate due to increased property value, the State became responsible for funding all new growth in the system. As a result of the dollar limit freeze, county property tax rates for the levy declined between 1996 and 2016 as property valuations increased. When counties locked in levy rates in 1995, there was significant variation between county levies, and with the growth and shift in population since 1996, those variations have only increased.

In 2012, **SF 2315** (Adult Disability Services Redesign Act) created a new mental health property tax levy that began July 1, 2013. The old formula was eliminated and replaced with a new formula that distributed funding on a per capita basis. The new levy has a cap of \$125.8 million, the same dollar amount as the previous levy; however, it is converted to a county per capita dollar amount based on general population with a new dollar target of \$47.28 per capita. In any fiscal year that a county base year levy cap is less than the per capita dollar amount, the

legislation provides for an equalization payment to make up the difference and bring a county to \$47.28 per capita. If a county currently levies more than the per capita amount, it will be required to reduce its levy to the per capita rate of \$47.28. The State provided equalization funding for counties that levied less than \$47.28 for two fiscal years, FY 2014 and FY 2015, but continues to require counties levying more than \$47.28 per capita to reduce their levies to that amount. The per capita levy formula is set to sunset at the end of FY 2018, and counties that were required to reduce their levies based on the \$47.28 cap will be able to levy up to the \$125.8 million statewide total. Senate File 2315 also shifted the county mental health system to a regional system creating 14 mental health regions. Most regions pool their levies, creating a funding challenge for those counties with a low per capita levy rate due to inequity.

Assumptions

- The fiscal impact below demonstrates the maximum amount that counties are allowed to levy under the Bill. The estimates may vary greatly from actual amounts because counties may not need to levy up to their limits to fund services in the region. Counties levied \$87.9 million in FY 2017. In addition, county fund balances will also be required to be reduced to 25.0% of estimated gross expenditures budgeted by reducing the levy.
- The new regional per capita cap is set by adding the sum of the maximum amount each county in the region would be able to levy for FY 2018 under current law and dividing that by the region's general population.
- Beginning in FY 2019 through FY 2022, the Bill sets an inflation factor for the regional caps of 1.0% for the first two years and 2.0% for the final two years. The regional caps and the inflation factor are limited to a statewide cap of \$47.28 per capita.
- Population estimates used to calculate the levy caps for FY 2019 through FY 2022 are based on CY 2010 to CY 2015 trends.
- It is projected that counties will have \$111.4 million in ending fund balances at the end of FY 2017 and counties are required to reduce that fund balance to 25.0% of gross budgeted expenditures (\$27.3 million), but they are not required to reduce their levies by more than 33.0% annually. **Attachment B** provides a visual illustration of the formula.

Fiscal Impact

Senate File 504 allows counties to levy an additional \$3.6 million in FY 2018 and \$5.2 million in FY 2019, which includes the transfer of property tax dollars from Broadlawns Medical Center. Those increases will be offset by an estimated \$30.8 million in required reductions in property taxes due to fund balances in excess of 25.0% for FY 2018, and \$24.8 million in reductions for FY 2019.

	SF 504 – Estimate of Maximum Levies					
	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Maximum MHDS County Levy	\$ 114,649,218	\$ 114,596,197	\$ 116,192,338	\$ 117,822,003	\$ 120,632,514	\$ 123,333,788
Maximum Broadlawns Transfer	4,000,000	7,674,201	7,649,202	7,619,996	7,431,993	7,229,848
Total	\$ 118,649,218	\$ 122,270,398	\$ 123,841,540	\$ 125,441,999	\$ 128,064,507	\$ 130,563,636
Estimated property tax relief due to fund balance reduction		\$ 30,787,920	\$ 24,827,483	\$ 18,979,126	\$ 10,792,229	

Although there will only be a minimal change in the maximum MHDS county levy from FY 2017 to FY 2018 due to changes in population, because of the equalization of levies between counties within regions, 59 counties will be required to reduce their property tax levies by \$8.6 million and 40 counties will be given additional levy authority to increase their property taxes by \$8.6 million. For additional information on each county and region, please see **Attachment A**.

Sources

LSA analysis
Department of Human Services

/s/ Holly M. Lyons

April 11, 2017

The fiscal note for this Bill was prepared pursuant to Joint Rule 17 and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.

SF 504 - Projected Impact on Maximum County Levies

Attachment A

Region	County	2015 Population	Current Law FY 2018 Max Levy	2018 Max Per Capita Rate	Estimated FY 2018 Levy	Estimated FY 2018 Max Rate	Current Law FY 2018 vs Est. FY 2018	Estimated FY 2019 Levy	Estimated FY 2020 Levy	Estimated FY 2021 Levy	Estimated FY 2022 Levy
Central Iowa	BOONE	26,643	\$ 878,976	\$ 32.99	\$ 945,844	\$ 35.50	\$ 66,868	\$ 956,594	\$ 967,463	\$ 988,142	\$ 1,009,262
Central Iowa	FRANKLIN	10,295	358,934	34.86	365,479	35.50	6,545	366,804	368,118	373,116	378,167
Central Iowa	HAMILTON	15,190	718,183	47.28	539,255	35.50	-178,928	540,596	541,946	548,685	555,476
Central Iowa	HARDIN	17,367	821,112	47.28	616,540	35.50	-204,572	621,236	625,963	636,968	648,162
Central Iowa	JASPER	36,827	1,741,181	47.28	1,307,383	35.50	-433,797	1,320,923	1,334,603	1,361,776	1,389,501
Central Iowa	MADISON	15,753	534,189	33.91	559,242	35.50	25,053	563,759	568,310	578,568	589,009
Central Iowa	MARSHALL	40,746	1,926,471	47.28	1,446,510	35.50	-479,960	1,462,804	1,479,279	1,510,749	1,542,885
Central Iowa	POWESHIEK	18,550	444,227	23.95	658,537	35.50	214,310	663,294	668,116	679,632	691,341
Central Iowa	STORY	96,021	3,066,575	31.94	3,408,810	35.50	342,235	3,497,542	3,588,577	3,718,416	3,852,955
Central Iowa	WARREN	48,626	1,084,011	22.29	1,726,256	35.50	642,245	1,758,793	1,791,953	1,843,823	1,897,202
CSS	ALLAMAKEE	13,886	656,530	47.28	606,072	43.65	-50,458	609,047	612,021	621,082	630,308
CSS	BLACK HAWK	133,455	5,779,837	43.31	5,824,812	43.65	44,975	5,904,793	5,985,880	6,128,123	6,273,754
CSS	BUTLER	14,915	389,899	26.14	650,984	43.65	261,085	658,243	665,583	679,666	694,047
CSS	CERRO GORDO	43,017	2,033,844	47.28	1,877,531	43.65	-156,312	1,886,520	1,895,546	1,923,466	1,951,837
CSS	CHICKASAW	12,097	571,946	47.28	527,989	43.65	-43,957	530,800	533,615	541,744	550,031
CSS	CLAYTON	17,644	834,208	47.28	770,095	43.65	-64,114	773,696	777,292	788,660	800,172
CSS	EMMET	9,769	461,878	47.28	426,380	43.65	-35,498	426,236	426,090	430,162	434,272
CSS	FAYETTE	20,257	773,024	38.16	884,142	43.65	111,118	887,738	891,362	903,875	916,533
CSS	FLOYD	15,960	610,064	38.22	696,594	43.65	86,530	700,607	704,630	715,725	726,982
CSS	GRUNDY	12,435	530,188	42.64	542,741	43.65	12,553	547,287	551,869	561,999	572,312
CSS	HANCOCK	10,974	518,851	47.28	478,974	43.65	-39,877	480,325	481,656	487,792	493,981
CSS	HOWARD	9,410	364,201	38.70	410,711	43.65	46,510	413,540	416,384	423,395	430,520
CSS	HUMBOLDT	9,555	451,760	47.28	417,040	43.65	-34,720	419,315	421,638	428,163	434,781
CSS	KOSSUTH	15,165	717,001	47.28	661,896	43.65	-55,106	665,252	668,610	678,667	688,859
CSS	MITCHELL	10,832	512,137	47.28	472,776	43.65	-39,361	477,328	481,923	491,380	501,022
CSS	POCAHONTAS	7,008	331,338	47.28	305,873	43.65	-25,465	307,301	308,726	313,266	317,864
CSS	TAMA	17,337	568,799	32.81	756,695	43.65	187,896	760,692	764,692	776,353	788,174
CSS	WEBSTER	37,071	1,752,717	47.28	1,618,011	43.65	-134,706	1,625,242	1,632,501	1,656,068	1,679,971
CSS	WINNEBAGO	10,609	433,910	40.90	463,043	43.65	29,133	465,161	467,275	474,077	480,964
CSS	WINNESHIEK	20,709	979,122	47.28	903,870	43.65	-75,251	909,471	915,137	929,943	944,975
CSS	WORTH	7,569	357,862	47.28	330,359	43.65	-27,504	333,927	337,533	344,556	351,725
CSS	WRIGHT	12,773	554,967	43.45	557,494	43.65	2,527	559,586	561,665	569,356	577,130

SF 504 - Projected Impact on Maximum County Levies

Attachment A

Region	County	2015 Population	Current Law FY 2018 Max Levy	2018 Max Per Capita Rate	Estimated FY 2018 Levy	Estimated FY 2018 Max Rate	Current Law FY 2018 vs Est. FY 2018	Estimated FY 2019 Levy	Estimated FY 2020 Levy	Estimated FY 2021 Levy	Estimated FY 2022 Levy
East Central	BENTON	25,658	908,642	35.41	936,882	36.51	28,240	942,636	948,412	963,695	979,210
East Central	BREMER	24,722	1,168,856	47.28	902,704	36.51	-266,152	914,645	926,734	948,308	970,374
East Central	BUCHANAN	21,062	995,811	47.28	769,062	36.51	-226,749	777,933	786,904	803,858	821,175
East Central	DELAWARE	17,403	822,814	47.28	635,457	36.51	-187,357	638,603	641,785	651,354	661,048
East Central	DUBUQUE	97,125	4,592,070	47.28	3,546,442	36.51	-1,045,628	3,607,022	3,668,644	3,768,270	3,870,608
East Central	IOWA	16,401	729,235	44.46	598,870	36.51	-130,365	605,375	611,950	624,721	637,758
East Central	JOHNSON	144,251	3,138,395	21.76	5,267,211	36.51	2,128,816	5,429,230	5,596,235	5,825,483	6,064,103
East Central	JONES	20,466	883,021	43.15	747,300	36.51	-135,721	753,113	759,005	772,514	786,259
East Central	LINN	219,916	8,195,141	37.26	8,030,058	36.51	-165,083	8,168,591	8,309,539	8,536,595	8,769,835
Eastern	CEDAR	18,340	867,115	47.28	564,451	30.78	-302,664	569,256	574,101	584,719	595,531
Eastern	CLINTON	47,768	2,258,471	47.28	1,470,159	30.78	-788,312	1,475,846	1,481,562	1,502,035	1,522,766
Eastern	JACKSON	19,444	787,145	40.48	598,429	30.78	-188,716	601,585	604,744	613,956	623,296
Eastern	MUSCATINE	43,011	2,033,560	47.28	1,323,752	30.78	-709,808	1,338,575	1,353,562	1,382,266	1,411,578
Eastern	SCOTT	172,126	3,308,032	19.22	5,297,532	30.78	1,989,500	5,395,891	5,496,065	5,653,541	5,815,510
Heart of Iowa	AUDUBON	5,773	272,947	47.28	149,180	25.84	-123,767	148,688	148,198	149,173	150,154
Heart of Iowa	DALLAS	80,133	1,524,538	19.03	2,070,718	25.84	546,180	2,171,550	2,277,276	2,411,793	2,554,262
Heart of Iowa	GREENE	9,027	426,797	47.28	233,267	25.84	-193,530	234,686	236,110	239,891	243,729
Heart of Iowa	GUTHRIE	10,676	504,761	47.28	275,879	25.84	-228,883	277,124	278,366	282,374	286,458
Northwest	CLAY	16,507	402,866	24.41	500,083	30.30	97,217	504,227	508,404	517,690	527,143
Northwest	DICKINSON	17,111	412,509	24.11	518,381	30.30	105,872	525,615	532,942	545,713	558,781
Northwest	LYON	11,745	248,113	21.12	355,817	30.30	107,704	360,385	365,009	373,349	381,877
Northwest	O'BRIEN	13,984	570,532	40.80	423,648	30.30	-146,884	425,406	427,188	433,210	439,334
Northwest	OSCEOLA	6,154	195,225	31.72	186,437	30.30	-8,788	186,465	186,507	188,408	190,312
Northwest	PALO ALTO	9,133	431,808	47.28	276,686	30.30	-155,122	277,281	277,890	281,241	284,648
Polk	POLK	467,711	14,439,175	30.87	14,439,175	30.87	0	14,814,803	15,200,216	15,750,053	16,319,800
Rolling Hills	BUENA VISTA	20,493	669,512	32.67	876,877	42.79	207,365	889,536	902,359	924,413	947,034
Rolling Hills	CALHOUN	9,818	431,560	43.96	420,103	42.79	-11,457	420,977	421,869	426,923	432,055
Rolling Hills	CARROLL	20,498	969,145	47.28	877,091	42.79	-92,054	882,923	888,828	903,622	918,651
Rolling Hills	CHEROKEE	11,574	477,158	41.23	495,241	42.79	18,083	497,125	499,041	505,905	512,890
Rolling Hills	CRAWFORD	17,094	808,204	47.28	731,437	42.79	-76,767	739,227	747,099	762,531	778,281
Rolling Hills	IDA	7,028	300,889	42.81	300,722	42.79	-167	303,254	305,806	311,432	317,162
Rolling Hills	SAC	10,021	473,793	47.28	428,790	42.79	-45,003	429,836	430,861	436,184	441,547

SF 504 - Projected Impact on Maximum County Levies

Attachment A

Region	County	2015 Population	Current Law FY 2018 Max Levy	2018 Max Per Capita Rate	Estimated FY 2018 Levy	Estimated FY 2018 Max Rate	Current Law FY 2018 vs Est. FY 2018	Estimated FY 2019 Levy	Estimated FY 2020 Levy	Estimated FY 2021 Levy	Estimated FY 2022 Levy
Rural	CLARKE	9,259	430,559	46.50	362,325	39.13	-68,234	365,079	367,852	374,313	380,886
Rural	DECATUR	8,220	321,858	39.16	321,667	39.13	-191	323,303	324,939	329,809	334,786
Rural	LUCAS	8,682	410,485	47.28	339,746	39.13	-70,739	341,009	342,264	346,951	351,689
Rural	MARION	33,294	1,089,896	32.74	1,302,869	39.13	212,973	1,316,174	1,329,615	1,356,493	1,383,913
Rural	MONROE	7,973	340,278	42.68	312,001	39.13	-28,277	314,924	317,873	324,027	330,300
Rural	RINGGOLD	5,068	239,615	47.28	198,322	39.13	-41,293	199,436	200,552	203,667	206,827
Rural	WAYNE	6,385	254,099	39.80	249,859	39.13	-4,240	252,239	254,642	259,613	264,680
Sioux River	PLYMOUTH	24,800	363,771	14.67	756,158	30.49	392,387	762,827	769,553	784,024	798,766
Sioux River	SIOUX	34,937	1,027,388	29.41	1,065,238	30.49	37,850	1,083,527	1,102,139	1,132,144	1,162,974
Sioux River	WOODBURY	102,782	3,564,086	34.68	3,133,849	30.49	-430,237	3,166,142	3,198,768	3,263,727	3,330,004
South Central	APPANOOSE	12,529	592,371	47.28	592,371	47.28	0	589,676	587,028	584,381	581,733
South Central	DAVIS	8,769	414,598	47.28	414,598	47.28	0	414,362	414,126	413,889	413,653
South Central	MAHASKA	22,324	1,055,479	47.28	1,055,479	47.28	0	1,054,770	1,054,060	1,053,351	1,052,642
South Central	WAPELLO	35,173	1,662,979	47.28	1,662,979	47.28	0	1,658,251	1,653,523	1,648,795	1,644,115
Southeast	DES MOINES	40,055	1,751,030	43.72	1,706,263	42.60	-44,767	1,722,852	1,739,603	1,773,907	1,808,888
Southeast	HENRY	19,950	846,381	42.43	849,830	42.60	3,449	856,736	863,696	879,374	895,334
Southeast	JEFFERSON	17,555	607,300	34.59	747,808	42.60	140,508	762,600	777,700	800,922	824,852
Southeast	KEOKUK	10,163	480,507	47.28	432,923	42.60	-47,583	434,370	435,846	441,637	447,531
Southeast	LEE	35,089	1,659,008	47.28	1,494,721	42.60	-164,287	1,503,043	1,511,381	1,534,827	1,558,652
Southeast	LOUISA	11,185	528,827	47.28	476,459	42.60	-52,368	479,244	482,038	489,684	497,443
Southeast	VAN BUREN	7,344	314,328	42.80	312,840	42.60	-1,488	314,462	316,086	320,856	325,691
Southeast	WASHINGTON	22,247	781,141	35.11	947,678	42.60	166,537	961,414	975,373	999,313	1,023,866
Southern Hills	ADAIR	7,228	309,066	42.76	296,543	41.03	-12,523	297,064	297,566	301,041	304,536
Southern Hills	ADAMS	3,796	179,475	47.28	155,739	41.03	-23,736	155,763	155,772	157,351	158,930
Southern Hills	TAYLOR	6,205	140,346	22.62	254,573	41.03	114,227	255,420	256,258	259,676	263,127
Southern Hills	UNION	12,469	589,534	47.28	511,566	41.03	-77,968	517,801	524,109	535,743	547,634
Southwest	CASS	13,427	634,829	47.28	611,001	45.51	-23,828	611,365	611,723	618,181	611,567
Southwest	FREMONT	6,906	326,516	47.28	314,260	45.51	-12,256	313,174	312,082	314,062	309,400
Southwest	HARRISON	14,265	674,449	47.28	649,134	45.51	-25,315	649,053	648,998	655,350	647,831
Southwest	MILLS	14,844	609,781	41.08	675,482	45.51	65,701	678,789	682,142	692,281	687,782
Southwest	MONONA	8,979	375,993	41.87	408,593	45.51	32,600	409,829	411,049	416,335	412,849
Southwest	MONTGOMERY	10,234	369,740	36.13	465,702	45.51	95,962	467,417	469,167	475,568	471,949
Southwest	PAGE	15,527	652,027	41.99	706,562	45.51	54,535	709,123	711,712	721,353	715,772
Southwest	POTTAWATTAMIE	93,671	4,428,765	47.28	4,262,533	45.51	-166,232	4,303,320	4,344,496	4,429,492	4,421,200
Southwest	SHELBY	11,927	563,909	47.28	542,742	45.51	-21,166	545,918	549,102	557,764	554,642
Total		3,123,899	\$114,596,197		\$114,596,197		\$0	\$116,192,338	\$117,822,003	\$120,632,514	\$123,333,788

Fund Balance Reduction Formula – Attachment B

(Current Year) Budgeted Expenditures x 25.0% = (Next Year) Cash Flow

(Prior Year) Ending Fund Balance - Cash Flow = Reduction (if greater than zero)

If reduction is greater than
33.0% of the County Budgeted
Amount = Reduce by 33.0% of
County Budgeted Amount

If reduction is less than 33.0% of
the County Budgeted Amount =
Reduce entire amount